CHAINS

High Profits from a Weird Pizza Combination

Atari founder Nolan Bushnell and hotelier Bob Brock are fighting for leadership in a new chain-restaurant market.

by GWEN KINKEAD

Out in the shopping centers of suburbia a grudge match is in full swing between Nolan Bushnell, chief executive of Pizza Time Theatre Inc., and Robert Brock, whose Brock Hotel Corp. runs ShowBiz Pizza Place. Until the two parted ways in 1979, Brock had been Bushnell's largest franchisee; the dispute is laced with personal bitterness that has not been softened by their out-of-court settlement last month of a long legal battle.

Brock and Bushnell are fighting for the leadership of the most perversely ingenious market segment yet created in the chain-restaurant business. Both Pizza Time and Brock's knockoff ShowBiz make unexceptional pizza all but irresistible by surrounding it with electronic entertainment calculated to entice whole families into supermarket-size, windowless "entertainment centers."

These places capitalize in shrewd, even Machiavellian fashion on the 20-minute order cycle that is a disadvantage for conventional pizza joints. To divert waiting parents and young children, electronic animals sing and guffaw at their own silly jokes. Customers not so thrilled by skits—notably teenagers—while away the time in electronic-game arcades, having been lured in by a few free tokens given away with food orders. Those arcades, which account for roughly 25% of total sales, generate 40% to 50% of the restaurants' profits.

The weird combination of pizza, Pac-Man, and performing robots is a powerful moneymaker. The restaurants typically spew out three to four times the sales of regular chain pizzerias, and up to nine times the profits. Since Pizza Time went public in April 1981 its stock has nearly doubled; Brock Hotel Corp. shares have gained 234% in two years of public trading. Both stocks have commanded high price-earnings multiples—36 for Pizza Time, 21 for Brock.

The improbable notion of combining pizza, singing robots, and video games arose in the fertile mind of Nolan K. Bushnell, 39. Bushnell launched Pizza Time in 1977. With him is one of his oversize automatons, the King.

Both companies are opening new restaurants at the rate of one every five days, mainly in the Sunbelt and Midwest. Pizza Time's master of ceremonies, a rat named Chuck E. Cheese, leers from illuminated signs at 131 restaurants, while Billy Bob Brockali, the quizzical bear who is ShowBiz's emblematic animal, holds forth at 75 outlets. By the end of 1985, each chain hopes to have in the neighborhood of 1,000 stores. Pizza Time expects to franchise about half of its stores; ShowBiz will franchise about 65%. Each admits to doubts, though, about whether the U.S. needs or wants 2,000 such establishments.

Going after the quarters

The saga of Bushnell vs. Brock—the story of how Chuck E. Cheese looked in the mirror one day and found Billy Bob Brockali staring back—began in 1974. Nolan Bushnell was then running Atari, the pioneer maker of video games. Bushnell also wanted to enter the game-arcade business, which generates a solid stream of cash—"I wanted to operate and take in those quarters," he says. He figured teenagers would flock to a pizza restaurant with games, but also figured he wouldn't get far if the places became hangouts, targets of communities' wrath that might be shut down. Bushnell conceived of banning unaccompanied teenagers and camouflaging the restaurants with entertainers, animated both for novelty and to avoid wages.

By the time Bushnell's first animated robot—the rat Chuck E. Cheese—was ready for work, Warner Communications had bought Atari, paying Bushnell $15 million for his share. Warner permitted Bushnell to build one Pizza Time restaurant in 1977 in San Jose, California, but wouldn't undertake more with its own money. Nothing came of talks with Holiday Inns about a joint venture, and soon after, Warner ousted Bushnell for his eccentric management of Atari. In 1978 Warner sold Bushnell the Pizza Time restaurant and the rights to the idea for $500,000.

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Bob Brock, 57 (with mascot Billy Bob Brockali), started ShowBiz in 1980.

Pizza Time's Chuck E. Cheese, in the center of the robot group at far left, guffaws with partially concealed half-size friends. ShowBiz's act in a similar dining-room theater involves three stages, life-size characters, and fancy props, such as Smitty's hillbilly gas station.

That same year, in Topeka, Robert Brock was pondering the course of his company. Brock had built the private company he and a partner owned into the largest domestic Holiday Inn franchisee. Out of the blue, an ex-Holiday Inn executive who had joined Bushnell's new outfit suggested that Brock become a Pizza Time franchisee. Once Brock clapped eyes on the profits of the two restaurants Pizza Time was operating by then, he was as good as sold. In mid-1979, he signed a co-development agreement to build as many as 200 restaurants in 16 midwestern and southern states, areas he knew from his 25 Holiday Inns and their restaurants. The contract also required Brock to sign up franchisees for another 85 restaurants.

It was a cut-rate contract—partly because of the size of his commitment and partly, says Brock, because "Nolan needed someone like us to give his ideas credibility and get Pizza Time off the ground." Brock's company had 1978 profits of $4.6 million and a potential line of credit for the anticipated $140-million investment. Bushnell, by contrast, was financing money-losing Pizza Time with his Atari proceeds and with small bank loans secured by his personal assets.

Brock was to have opened his first franchise in January 1980. Before then, however, his relations with Bushnell disintegrated into lawsuits. In November 1979 two of his executives told him they'd met a young Florida inventor named Aaron Fechter at an amusement-park trade show—and that Fechter's singing robots were better than Bushnell's. That came as a shock, since Bushnell had insisted that Pizza Time had the only animated characters in the country other than Disney's. Brock flew to Orlando to see Fechter's creatures for himself, and found not "a kid making junk in his garage," as Pizza Time had characterized Fechter, but a company called Creative Engineering Inc. that employed 25 people and turned out roughly $1 million a year worth of imaginative animated attractions for amusement parks. Indeed, Bushnell had once met Fechter at a trade show and asked casually if Creative Engineering was for sale.

Brock stormed back to Topeka; two weeks later he demanded that Bushnell let him out of the contract. When Bushnell refused, Brock negotiated a preliminary contract with Fechter anyway. In early January, he notified Bushnell that their agreement was ended. Bushnell promptly sued for breach of contract, and Brock countersued for misrepresentation.

To Bushnell's mind, Brock used Fechter as an excuse to break a contract that hindered his ambitions. "Brock was already pregnant," Bushnell says. "He had two contracts and had to get out of one—he wanted to up his price-earnings ratio by becoming a franchisor instead of a franchisee, to give more pizzazz to his public offering. Bob Brock is a very greedy guy."

Brock's contract with Fechter was what Fechter calls "an inventor's dream." For supplying the creatures and their skits, Creative Engineering got 20% of the new company; in addition, Fechter was given the extraordinary right as minority shareholder to declare the new venture's quarterly dividend in any amount he chose up to 30% of earnings. Fechter set the first dividend at 15%, and took home to Orlando $45,000, which he plowed back into R&D. "Brock's a real inspiration, right up there with my Mom and Dad," he exults. He pauses to add: "Though not as high. But I'd like to invite him in on anything else I do."

In the 2½ years since their rupture, Brock and Bushnell have made several trips each to the capital markets for financing. ShowBiz and Pizza Time cost more to build and equip than most chain restaurants. A ShowBiz unit comes to $1.25 million, including $90,000 for eight animals and their stage effects plus $200,000 for 50 video games and 30 amusement-park devices for young children. Pizza Time Theatres, slightly larger, cost $1.6 million each. All told, Brock has raised $27.4 million through stock offerings. Pizza Time, bolstered with several infusions of venture capital totaling $5.5 million, became profitable for the first time in 1980. Last year it went public with two offerings that raked in $37 million.

Soap operas for mom

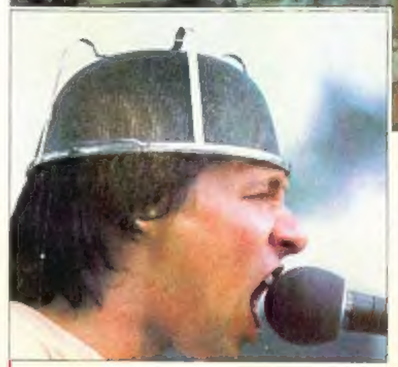
The hottest part of the Brock-Bushnell race currently is the scramble to acquire prime sites. Though each chain predominates in some regions—for Brock, these include New Orleans, Oklahoma City, and Chicago, and for Bushnell, Seattle, Detroit, and California—they are bumping into each other more and more as they expand.

Claiming the high ground is important, since Pizza Time and ShowBiz compete with relatively slender distinctions. ShowBiz's animation is the more diverting: every few minutes eight cheerfully grotesque electronic animals perform skits and songs on three stages in the dining room. The shows fascinate children, who watch them with open mouths. No less important, they also fascinate the kids' parents. The songs of the Rock-Afire Explosion band—a gorilla, bear, mouse, and dog—are competent re-creations of Beatles and Beach Boys numbers that evoke nostalgic memories of the 1960s, when many of those parents were still kids themselves. The band alternates with Billy Bob, who banters with his sidekick, a tipsy bird who makes gasohol. ShowBiz offers yet another seductive adult time-passer: mothers wearying of the show can wander to another room and watch soap operas on wide-screen television. The soaps yield after school to cable sports programming.

Next to ShowBiz's kinetic act, Pizza Time's characters—whirring and clicking like a plague of locusts—want for mechanical sophistication. But the laughs their bad jokes get suggest that Pizza Time's half-size robots have mysterious powers of delivery. Audiences appear amused when Chuck E. Cheese—"the New Joisey rat"—turns to Jasper T. Jowls, a dog character, and confides to the audience, "You've got to excuse my pal Jasper, folks, his little head is made out of dogwood." In separate lounges, full-length apparitions stage cabaret acts. The enormous Dolli Dimples, a buxom hippopotamus, moves her velour jowls—and heaves her brocaded bosom—in time to torch songs, while nearby a Presleyesque dog swivels his furry hips to rock.

In either place, the typical customer comes back once every two months, there to linger for 1½ hours on average. A family of four spends $22 to $24 a visit. It all adds up to one of the highest sales-per-store figures among self-service restaurants. ShowBiz outlets averaged $1.45 million in revenues last year, while those of Pizza Time averaged $1.19 million each. No competitor in the pizza business touches these results. Pepsico's Pizza Hut, the largest national chain with 20% of the $5-billion-a-year pizza market, last year mustered average sales of $320,000 at each of its 4,000 restaurants. Even McDonald's doesn't measure up: its restaurants grossed $1.1 million on average in 1981.

Profit margins also rank with the most appetizing among restaurant chains. Last year ShowBiz company stores averaged $320,900 in pretax profits, a margin of 22.1% of sales, compared with $237,200



Aaron Fechter, 28, produces his ShowBiz characters in Orlando, Florida, and—wearing a colander as headgear—sings for the band that records their acts. Fechter also does several of their voices.

A Prodigy of Automatons

Superlatives of which he is the object trip easily from the mouth of 28-year-old Aaron Fechter, creator of ShowBiz's animation. Fechter regards himself as the best animator in the country—and the best three-dimensional animator in the world. His aspiration is to rank with Disney, and his vehicle for that is his contract with Robert Brock. "Brock didn't tell me he'd make me rich, but he did say I would become one of the most successful inventors in history," says Fechter. And that's just the way he wants it: "Brock's benefiting financially from the deal—he's making money—but I'm going to change the world."

Still, there's a touch of modesty. Although Brock says Fechter is the only "child prodigy genius" he knows, Fechter disagrees: "I have a lot of luck and common sense." Fechter started inventing straight out of the University of South Florida, where he majored in finance. But he couldn't get money to produce a golf-cart-like car that got 90 miles per gallon, and few people wanted his next invention, a device to suck up leaves from swimming pools. He then turned to making talking animals and scored almost immediately: his first trip to an amusement-park trade show won several orders, for which he got cash up front.

When Fechter met Brock several years later, he leapt at the chance to make animation for restaurants—in good part, he says, because Brock's scheme would provide a captive, non-paying audience for his creatures and for their music, which he performs with his own rock group. "I wanted this to be a gift to the world," he says, "just like a song on the radio you can turn on for free."

Fechter spends all his working hours on Creative Engineering. His 200 employees this year will make more than 100 sets of ShowBiz characters—12 robots in all—for cost plus 10%. Despite his finance major in college, Fechter flushes and clams up when asked about his earnings. Money seems to unnerve him: "I don't know anyone nice who has money," he says. Fechter considers himself an artist, and he lets his father, Mel, Creative Engineering's treasurer and in-house counsel, handle his finances. His biggest worry is that friends from boyhood who work for him will turn up their noses if he discloses his worth. But with 70% of Creative Engineering, 1% of ShowBiz, and a $70,000 salary, he's already a millionaire.

Research associate: Monci Jo Williams

Chuck E. Cheese waves a surreal hello to customers in Brandon, Florida.

per restaurant, or a 20% pretax margin, for Pizza Time. (The results, before payment of franchise royalties, are generally 3% to 4% better at franchise stores.) A 10% margin is about par for competing pizza chains. Part of the difference is size: ShowBiz and Pizza Time can cram 400 to 500 customers into their units, four to five times the capacity of most chain pizzerias.

But the main reason is all those quarters that go into the games. Both companies expect to exploit that end of the business still more intensely in the future. Fechter is making video games for children 2 to 12 years old, a crowd overlooked by other manufacturers. Once Bushnell's non-compete clause with Atari expires next fall, he will be able to sell any new games he develops. "Good luck to him," says Brock brusquely. "We'll buy them."

A question of longevity

Whatever he buys or doesn't buy, Brock will be forking money over to Pizza Time for at least 14 years under the terms of their legal settlement. In effect, the arrangement is a license for Brock to use the Pizza Time concept by paying fees based on a percentage of the annual gross revenues of the first 160 ShowBiz restaurants; Brock is offsetting the payments by raising his food prices an extra 2%. Bushnell thinks the fees could total $50 million.

That's assuming, of course, that Pizza Time and ShowBiz last 14 years. Among the financial analysts who regard the restaurants as another flash in the fast-food pan is Lee Isgur of Paine Webber Mitchell Hutchins Inc. "The concept is brilliant but I don't think it's long lasting," Isgur says. "These places don't have the best video-game arcades or the best restaurants. Anyone can replicate the idea, and what'll happen when the novelty wears off?" Two dozen-odd competitors are already crowding in. Among them: two video-game manufacturers, Bally Manufacturing and Sega Enterprises. Once-standoffish Warner is back in the business, with two stores featuring Looney Tunes characters—Daffy Duck, Bugs Bunny, Porky Pig—and a grown-up menu that includes burgers, salads, and quiches. Several former Brock executives run a Baltimore restaurant with animated characters by ex-Disney artists and hope to become a national chain. Horn & Hardart and a fledgling outfit called Family Entertainment Concepts Inc., managed by ex-Pizza Time employees, have single-store imitations. Even K mart—which leases space for 35 units to Pizza Time and ShowBiz—has opened a couple of its own stores.

Despite his distaste for Brock, Bushnell thinks that ShowBiz is his only competitor with a prayer of lasting. But the danger of the field's being overrun is plain. No one, not Bushnell and not Brock, knows how much the market can consume before staggering for the antacid. F

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